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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000238

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SUBJECT: GOAM'S MCC POINT OF CONTACT ASKS FOR PATIENCE

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Classified By: CDA Joseph Pennington, reasons 1.4 (b/d).

SUMMARY

¶1. (C) On March 13 MCC resident country director (RCD) and acting Polchief met with Minister of Trade and Economic Development Nerses Yeritsian to convey USG concerns about Armenia's ongoing political crisis, warn about its potential impact on continued funding of MCC programs, and urge the GOAM take immediate actions to correct the situation. Yeritsian in response asked the United States to take a balanced view of recent events and recognize that both the government and opposition forces shared blame for the crisis.

While admitting the GOAM made mistakes, he nonetheless defended PM Sargsian's integrity as a leader, and urged the USG to give the president-elect time to navigate the country out of the troubled waters. He also advised against pushing Sargsian "towards harsher corners," as this could result in furthering the president-elect's dependence on security figures who might seek to profit from the situation. END SUMMARY.

YERITSIAN NOTES MCC DIRECTOR'S ABSENCE

¶2. (C) The MCC RCD's March 13 meeting with Minister Yeritsian fell within the framework of regularly held bilateral consultations that both have been holding since January when MCC CEO Ambassador John Danilovich issued a written warning to Armenia about its failing indicator performance. Danilovich issued that warning to President Kocharian in late December, well before the current political crisis erupted in mid-February. Kocharian appointed Minister Yeritsian to coordinate and serve as USG point of contact for the GOAM's MCA Policy Improvement Plan (remediation plan), which is designed to show how Armenia intends to improve its indicator status. A young, competent, western-thinking minister with an economic policy background, Yeritsian has been approaching his task with seriousness, dedication, and a methodical, technocratic approach. He seems more comfortable dealing with the more objective social and economic indicators, rather than with the inherently less tangible Ruling Justly indicators.

¶3. (C) Minister Yeritsian immediately commented on the MCC RCD's absence from the regularly held Millennium Challenge Account -- Armenia (MCA-Armenia) Governing Council meeting

March 12. PM Sargsian always chairs the Governing Council meetings, which usually receive ample media coverage. Yeritsian also glumly acknowledged receipt of the second warning letter from Ambassador Danilovich sent on March 11 in which Danilovich expressed USG concern about the GOAM's handling of the political crisis. (NOTE: The charge d'affaires, MCC RCD, and country team had agreed that the RCD would not attend the March 12 meeting -- the first time that neither the RCD nor deputy RCD had attended a Governing Council session -- as an early signal of USG concern about Armenia's democratic crisis. END NOTE)

GOAM FACES A PIVOTAL MOMENT

¶4. (C) RCD commented that recent political events have in some ways eclipsed the more routine remediation ideas that he and Yeritsian had discussed in earlier meetings, and it is important to recognize the bigger picture issues that now represent a more serious challenge to Armenia's continued MCA program. RCD cautioned that aid only works when given to responsible governments, and that GOAM handling of the current political crisis was forcing the MCC and other MCC Board agencies in Washington to reassess Armenia's continuing eligibility, and this process was ongoing. He urged the GOAM to seize the moment to correct its slippage in democratic practices.

¶5. (C) Polchief echoed that it is crunch time for the GOAM on the democracy front, and that Washington policymakers' patience on Armenia's democratic performance was waning. He urged the GOAM to immediately lift the state of emergency, restore all media freedoms, end the arrests of LTP supporters that appear to be politically motivated, and start charting a course of political reconciliation. It was now time for PM Sargsian to step up and assume the mantle of a true national leader. Polchief further warned that the crackdown was

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giving policymakers at the highest levels in Washington serious pause about the increasing disconnect between GOAM words and actions which, if uncorrected, could have undesirable consequences for America's overall assistance programs in Armenia.

PLEASE TAKE A BALANCED VIEW

¶6. (C) Minister Yeritsian took the critiques on board, and acknowledged that the GOAM "had made mistakes" in its handling of the post-election situation. But he asked that the United States make a balanced assessment of events -- that both the government and opposition shared blame for the crisis. He underscored that people on both sides "had been led in the wrong direction" by forces that did not necessarily have Armenia's best interests in mind. He pointedly admitted that "closing information on our side" was the wrong thing to do, in reference to the media ban imposed by the state of emergency.

¶7. (C) Yeritsian tried to strike an upbeat tone, however, saying "things are already changing" in the right direction. He defended the integrity of President-elect Sargsian, drawing attention to the conciliatory gestures the PM had begun to make. On March 12, Sargsian met with economic students at Yerevan State University to discuss political events in the country. On March 10 Sargsian's newly created blog began functioning (septel), and on the evening of March 13 the president-elect answered questions posted to his blog in a 2-hour taped TV interview that Armenian public TV showed in its entirety. Yeritsian said he had convinced PM Sargsian to conduct a similar Q&A session for the weekend with representatives of small and medium enterprises (SMEs) which he (Yeritsian) was personally setting up. He echoed the PM's

instructions to government ministers during a March 6 cabinet meeting for GOAM representatives "not to be shy," but to present their points to the public about recent events.

AVOID PUSHING TOWARD "HARSHER CORNERS"

18. (C) Yeritsian also requested the USG be patient with the president-elect, contending that he needed time to navigate the country out of its current troubled waters. He said Sargsian had raised Armenians' expectations during the presidential campaign on how he will govern, which meant he was now on the hook to deliver on them. Yeritsian said everyone should give the president-elect a chance, saying it was important "to wait and see" how he performed in his new role.

19. (C) Yeritsian independently offered that the political crisis has "worsened the situation" for President-elect Sargsian, noting that he has lost some freedom of maneuver. He said the tenuous security situation had made Sargsian more dependent not on outgoing President Kocharian, but on the "circle around him," in a veiled reference to security advisers in the current government who have been advising Kocharian. He warned the USG not to push President-elect Sargsian "toward harsher corners," as other senior leaders Washington might not want to see empowered could profit from the situation -- to Sargsian's detriment.

STRESSING SARGSIAN'S ECONOMIC BONA FIDES

110. (C) Yeritsian sought to bolster the PM's economic credentials as a viable future partner. He said he had the vision to develop Armenia's economy in the right direction, and that the PM's door was always open to Yeritsian and his forward-thinking concepts. He pointed to Sargsian's unqualified support of an information technology program Yeritsian has recently been pushing, and Sargsian's recent support for developing new wheat producing markets in Armenia. He again asked that Washington give the president-elect time to perform before taking any precipitous action.

COMMENT

111. (C) We met with Yeritsian the last time we issued an MCC warning letter in January, again to firmly convey our views

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about Armenia's slippage in indicators. Within 48 hours President Kocharian called CDA in to defend his MCC record. We're confident Yeritsian got the point once again, and will relay the message appropriately. While a committed reformer, Yeritsian himself can only have so much say, and policies related to the Ruling Justly indicators are furthest from his own ministerial portfolio. On these issues he can do little more than convey our concerns to his political masters. He appeared visibly frustrated over the situation, and in one revealing moment, voiced hope for a future when Armenia would no longer require foreign assistance. Interestingly, opposition leader Levon Ter-Petrossian told us during a March 8 meeting at his home that the only minister he respected in the Sargsian government was Yeritsian, a view we have heard from many quarters. If this were a problem that could be solved simply by a conscientious, technocratic policy administrator, Yeritsian would be the perfect man for the job. The political will to resolve Armenia's political crisis in a democratic direction lies well above Yeritsian's head, however, and his role is limited to message carrier.

END COMMENT.

PENNINGTON